

TOP SECRET

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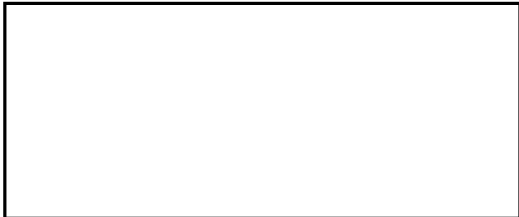
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GENERAL

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1. Chinese Communists may have acquired two Soviet submarines:

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two

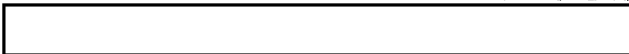
Soviet "S-class" long-range submarines flying the Chinese Communist naval ensign on 28-30 June at Tsingtao, a Chinese naval base on the Shantung Peninsula.

Comment: It is possible that these submarines were actually of the Soviet "SHCH" medium-range class.

The Chinese Communists were previously believed to have only one small coastal-type Soviet submarine, which has probably been used at Tsingtao as a training vessel.

Unless Chinese crews have been trained in the Soviet Union, it is not considered likely that the Chinese Communists will be able to operate these larger submarines effectively for several months.

The transfer of either type of Soviet submarine to the Chinese Communist navy would greatly increase its capabilities for operations against the Nationalist navy, which is considered poorly trained in antisubmarine warfare and vulnerable to submerged attack.



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SOVIET UNION

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2. Two Soviet tankers return to Istanbul after starting for Far East:

Two Soviet tankers, each carrying 9,000 tons of kerosene from Constanta, passed Istanbul on 30 June and 2 July en route to Vladivostok, according to the American naval attaché at Ankara. On 6 July both ships had returned to Istanbul.

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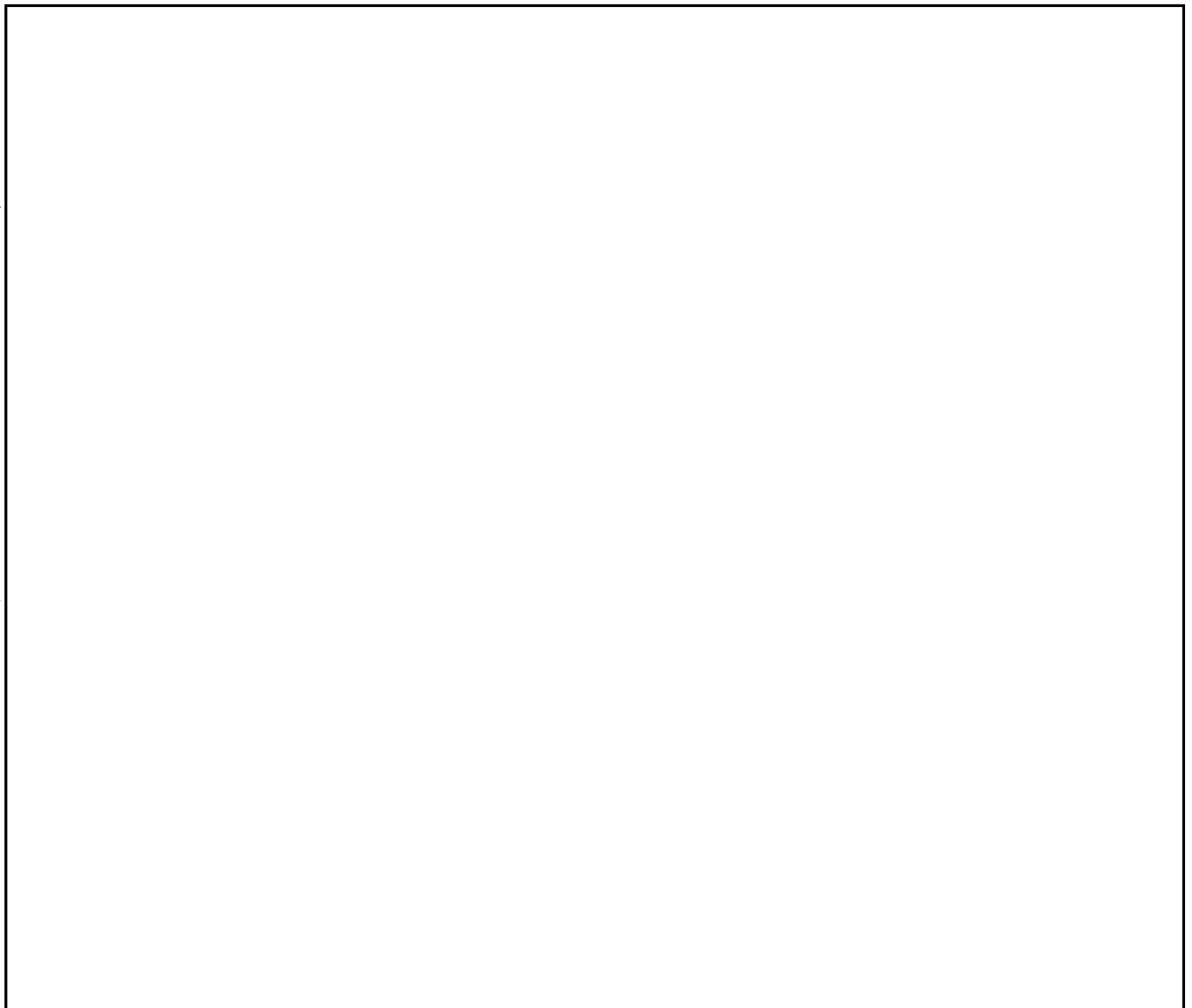


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Comment: It seems likely that the actual destination was China rather than Vladivostok. The return of these vessels suggests that the Soviet government has not yet decided what action to take to protect its ships in waters near Formosa.

Except for a Soviet refrigerator vessel accompanied by 14 trawlers which was headed for the Luzon Strait on 6 July en route to Vladivostok, the USSR continues to keep its other ships far outside Formosan waters.



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SOUTHEAST ASIA

4. American embassy comments on new Vietnamese cabinet:

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The Ngo Dinh Diem cabinet, which was sworn in on 7 July, is described by the American embassy in Saigon as ultra-nationalist, cool toward both the French

and Bao Dai, and vaguely neutralist. None of the parties and few of the individuals in previous governments are represented in the new line-up.

Much greater weight is given to representation from north and central Vietnam than in previous governments and at least six members in the past have turned down cabinet offers. Diem, as minister of the interior and of national defense, retains considerably greater power in his own hands than did his predecessor, Buu Loc.

The embassy doubts that the announcement of the new cabinet appointments will add appreciably to the government's popular support.

Comment: The decision of several former fence-sitters to join the government at this late date shows the continuing strong appeal offered by a government that is apparently willing to cut loose from both the French and Bao Dai.

Possibly indicative of the new government's independent attitude, is a report of 6 July from Saigon that Diem has decided to order the Vietnamese delegation to walk out of the Geneva talks.

5. General Ely says he would resign if ordered to evacuate Hanoi:

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General Ely told Ambassador Heath on 6 July that while it would be sound militarily to evacuate Hanoi and fall back on Haiphong, such a move would have catastrophic political

repercussions. He said that as a soldier he perhaps ought to make the move, but as commissioner general he intended to fight for Hanoi even

though he might be beaten. If his government gave up Hanoi in a deal with the Viet Minh, Ely said he would of course withdraw his troops in obedience to orders, but would thereupon offer his resignation.

General Ely said he had one additional withdrawal to make in Tonkin--from a sector west of Hanoi--for which he had not yet set a date.

Comment: Ely's ostensibly combative posture is manifestly inconsistent with the French decision, recently revealed by France's representative at Geneva, to yield Hanoi to the Viet Minh.

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AUSTRALIA - NEW ZEALAND

6. New Zealand external affairs minister's statement on Communist China disavowed:

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New Zealand's permanent secretary for external affairs, A. D. McIntosh, has informed Ambassador Scotten that External Affairs Minister Webb's statement favoring

the admission of Communist China into the UN was not cleared with the prime minister or the cabinet and does not reflect the government's policy. He said Webb had gone "entirely too far" and that it was "inconceivable" New Zealand would vote against the United States on such a question.

McIntosh explained that although New Zealand believed the time may come when its present policy toward Peiping would have to be reassessed, it was not prepared to gamble on the prospect of dividing the Communists at the risk of undermining Western unity. He was at a loss to know what the government would do to clear up "this muddle" since it is unlikely Webb will make a public retraction.

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Comment: Webb's statement in a parliamentary foreign affairs debate advocating recognition of Communist China and its admission to the UN was supported by both sides of the house.

NEAR EAST - AFRICA

25X1A 7. Egyptian foreign minister to be replaced by Major Salam:

The Revolutionary Command Council has decided to replace Foreign Minister Fawzi with Major Salah Salam, a member of the council and currently minister of national

guidance and Sudanese affairs,

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Fawzi is "fed up" with being by-passed by the council. Salam's recent official visits to Saudi Arabia and Lebanon are said to have been the final blow and Fawzi is now ready to resign. He awaits only the council's decision on the timing.

Comment: Fawzi's replacement on the eve of the resumption of Anglo-Egyptian talks by the young and emotional Salam would remove an experienced diplomat from the difficult Suez negotiations.

The appointment of Salam as foreign minister would place all key cabinet posts in the hands of the Revolutionary Command Council and could be expected to further dissension in the Foreign Ministry.

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WESTERN EUROPE

25X1A 8. Mendes-France complains of foreign pressure for EDC ratification:

Premier Mendes-France told Ambassador Dillon on 6 July he is convinced France will not ratify the EDC treaty in its present form. He said that even if the EDC treaty were approved by a narrow majority in the National Assembly, it would be "decisively defeated" in the Council of the Republic.

The premier said he was growing discouraged at prospects of even reaching a satisfactory compromise on EDC. He complained that pressure for ratification being brought by Belgian foreign minister Spaak and West German chancellor Adenauer has had the effect of stiffening opposition to the treaty in France.

Both the French minister in London and a close friend of Mendes-France have told American officials in London the premier is complaining about being "put on the spot" by concerted pressure from foreign governments.

Comment: Mendes-France was previously reported to have assured pro-EDC leaders that if he failed to achieve a compromise EDC solution, he would introduce the EDC treaty into the assembly without amendments. This is the first time he has indicated to American officials his view that EDC will not be ratified if no compromise can be found. Pro-EDC deputies still maintain, however, that they have a majority in the assembly.

25X1A 9. British officials advocate German membership in NATO:

High British Foreign Office officials hold that German membership in NATO is the only alternative to EDC. If the French do not ratify EDC by mid-August, the British

propose moving ahead with plans to restore German sovereignty and concurrently to secure a West German defense contribution.

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In order to allay fears of unrestricted German rearmament, the Foreign Office suggests that NATO-wide and German agreement be sought on limiting the size of German forces and the types of arms the Germans could use or manufacture. Other provisions from the present EDC treaty would also be adopted to provide for integration and strong control by NATO of all national contingents.

The British are aware that France could veto German entrance into NATO, but believe Paris would "have trouble" resisting pressure from at least 12 other NATO members.

Comment: This proposal would call for modifications in the present NATO structure and would entail even more difficulties than the earlier British suggestion that German sovereignty be restored with or without French consent. It may therefore represent primarily a new British attempt to bring pressure to bear on France to approve the EDC treaty as the most feasible way of rearming Germany.

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